

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BONN

AMEMBASSY TOKYO

C O N F I D E N T I A L STATE 134261

FOLLOWING REPEAT KINSHASA 5398 ACTION SECSTATE INFO
BRUSSELS LONDON PARIS DTD 07 JUN

QTE

C O N F I D E N T I A L KINSHASA 5398

DEPT PASS TREASURY, EXIM

E.O. 11652: GDS

TAGS: EFIN, CG

SUBJECT: ZAIRE BALANCE OF PAYMENTS

REF: A. KINSHASA 4067 B. KINSHASA 2160

1. THE FOLLOWING TABLE PROVIDES OUR BOP ESTIMATES ON A FINANCIAL
SETTLEMENTS BASIS IN MILLIONS OF DOLLARS:

	1977	1ST SEMESTER	2ND SEMESTER
CURRENT ACCOUNT RECEIPTS	1700	830	870
(OF WHICH EXPORTS)	(1500)	(730)	(770)
EXPENDITURES	2063	1042	1021
OF WHICH			
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(DEBT SERVICE-P&I)	(463)	(242)	(221)
(GOODS AND SERVICES)	(1500)	(750)	(750)
(OTHER INCLUDING TRANSFERS)	(100)	(50)	(50)
GROSS FINANCIAL GAP	363	212	151
FINANCED BY			
IMF	54	31	23
NEW BANK CREDITS	125	-	125
NEW PUBLIC CREDITS	75	25	50
NET GAP			
(DEFICIT -	-110	-157	X47

SURPLUS X)

2. MINERAL EXPORT PERFORMANCE - MINERAL EXPORT PERFORMANCE IN THE FIRST FOUR MONTHS OF 1977 WAS POOR ACCORDING TO FIGURES OBTAINED FROM THE ZAIRIAN SURVEILLANCE COMPANY (OZAC). EXPORTS FROM THE COPPER BELT DROPPED DRAMATICALLY IN MARCH AND APRIL DURING THE SHABA WAR. THE EXPORT SHORTFALL PROBABLY RESULTS FROM A COMBINATION OF DIMINISHED PRODUCTION AND A BUILDUP OF STOCKS DUE TO TRANSPORT BOTTLENECKS. ALTHOUGH GECAMINES OFFICIALS HAVE MINIMIZED THE EFFECTS OF THE WAR ON GECAMINES PRODUCTION, WE THINK THEY ARE PROBABLY UNDERSTATING PRODUCTION DIFFICULTIES. WHILE WE EXPECT EXPORTS TO PICK UP IN MAY AND JUNE AND TO CONTINUE AT A NEAR NORMAL PACE THROUGHOUT THE SECOND SEMESTER, WE DOUBT THE GECAMINES WILL RECOUP THE LOSSES ALREADY EXPERIENCED. OUR WORKING HYPOTHESES FOR COPPER ARE AS FOLLOWS:

PREVIOUSLY EXPECTED ANNUAL EXPORTS 450,000 M.T.

EXPECTED EXPORTS FOR FIRST FOUR MONTHS TO

MEET TARGET 150,000 M.T.

ACTUAL EXPORTS FOR FIRST FOUR MONTHS OF 1977 116,000 M.T.

EMBASSY PREDICTION OF EXPORTS FOR 1ST SEMESTER 180,000 M.T.

EMBASSY PREDICTION OF EXPORTS FOR 1977 405,000 M.T.

BASED ON THESE EXPORT LEVELS AND THE DEPRESSED LEVEL OF COPPER PRICES (WE NOW THINK THAT \$0.64/LB. IS A REALISTIC AVERAGE FOR THE YEAR) WE ESTIMATE ANNUAL COPPER EARNINGS AT ABOUT \$570 MILLION. MINERAL EARNINGS WILL BE POOR IN THE FIRST SEMESTER AND SHOULD IMPROVE IN THE SECOND SEMESTER OF 1977 AS EXPORTS SHIPMENTS PICK UP.
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UP TO MORE NORMAL LEVELS.

3. AGRICULTURAL EXPORT PERFORMANCE - AGRICULTURAL EXPORTS, IN CONTRAST, SHOULD SHOW A STRONG FIRST SEMESTER PERFORMANCE AND FALL OFF IN THE SECOND SEMESTER. COFFEE EXPORTS IN THE FIRST FOUR MONTHS OF 1977 TOTALED 33,000 METRIC TONS, THE HIGHEST LEVEL IN YEARS. IN ADDITION, COFFEE RECEIPTS IN THE FIRST SEMESTER SHOULD BE BUOYED BY PAYMENTS FOR DECEMBER EXPORTS OF AROUND 15,000 M.T., THE REPATRIATION OF COFFEE RECEIPTS FROM PAST YEARS AND ANTICIPATED SHIPMENTS OF 1975 AND 1976 COFFEE NOT YET BEEN DELIVERED BECAUSE OF DISPUTES OF THE SELLING PRICE. ON THE BASIS OF AN AVERAGE PRICE OF \$2.50 AND AN EFFECTIVE EXPORT LEVEL OF 90,000 M.T., WE HAVE PUT 1977 COFFEE EARNINGS JUST UNDER \$500 MILLION. WE EXPECT THAT ABOUT 60 PERCENT OF THESE EARNINGS SHOULD BE RECEIVED IN THE FIRST SEMESTER OF 1977. IN ADDITION TO COFFEE, EXPORT SHIPMENTS OF COCOA, RUBBER AND TIMBER APPEAR TO BE PROCEEDING AT A HIGH RATE AND ENJOY GOOD WORLD PRICES.

4. IMPORTS OF GOODS AND SERVICES - AS IN THE PAST, WE HAVE ASSUMED A LEVEL OF IMPORTS ROUGHLY CONSISTENT WITH 4 PERCENT REAL ECONOMIC GROWTH. WE HAVE MADE NO SPECIAL ALLOWANCE FOR THE EXTRA BALANCE OF PAYMENTS BURDEN OF THE SHABA WAR SINCE (A) WE HAVE NO GOOD ESTIMATES OF THESE COSTS AND (B) GOZ CLAIMS THEY HAVE FOR THE MOST PART BEEN MET BY ASSISTANCE.

5. DEBT PAYMENTS: THE FIGURES ON FOREIGN DEBT ARE BASED ON THE GOZ PRESENTATION TO THE CONSULTATIVE GROUP WHICH SHOWED 1977 INTEREST AND PRINCIPAL PAYMENTS FALLING DUE IN 1977 AS \$352 MILLION. WE HAVE ASSUMED THAT THESE PAYMENTS WERE DIVIDED EVENLY BETWEEN THE FIRST AND SECOND SEMESTER. WE HAVE THEN ADDED ON THE AMOUNT BY WHICH ARREARAGES ARE TO BE REDUCED UNDER THE IMF PROGRAM (\$66 MILLION IN FIRST SEMESTER, ESTIMATED \$45 MILLION IN SECOND SEMESTER) TO COME UP WITH A TOTAL DEBT SERVICE BURDEN.

6. FINANCING - WE HAVE HAD TO ADJUST OUR FIGURES ON IMF FINANCING. ACCORDING TO IMF DOCUMENTS ONLY \$31 MILLION WILL BE AVAILABLE. CONFIDENTIAL

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ABLE THE FIRST SEMESTER AND \$23 MILLION IN THE SECOND SEMESTER. WE HAVE ASSUMED THAT DISBURSEMENT OF \$125 MILLION IN LONDON AGREEMENT MONEY IS MADE IN THE SECOND SEMESTER. WE HAVE ALLOWED FOR A STEP UP IN PUBLIC BALANCE OF PAYMENTS CREDITS IN THE SECOND SEMESTER OF 1977 BUT HAVE OMITTED FROM CONSIDERATION FIRST SEMESTER AID DEVOTED TO COVERING THE EXTRA COSTS OF THE SHABA WAR. OUR FIGURES TAKE INTO ACCOUNT, HOWEVER, THAT NOTWITHSTANDING TALK OF SAUDI, IRANIAN AND OTHER SUPPORT, HARD COMMITMENTS HAVE BEEN SLIM.

7. FINANCIAL GAP - OUR CALCULATIONS PRODUCE A FINANCIAL GAP ON THE ORDER OF \$110 MILLION. IT SHOULD BE NOTED THAT THIS FINANCIAL GAP COULD TURN OUT TO BE SIGNIFICANTLY GREATER IF (A) THE LONDON BANK AGREEMENT IS NOT QUICKLY IMPLEMENTED, (B) EXPORT RECEIPTS FROM COFFEE FALL SHORT OF THEORETICALLY POSSIBLE LEVELS, AND (C) MINERAL EXPORTS FROM SHABA FAIL TO BOUNCE BACK AFTER THE POOR PERFORMANCE OF THE FIRST FOUR MONTHS. WE BELIEVE THAT THE ZAIRIANS ARE ATTEMPTING TO BRIDGE THE GAP IN THE FIRST SEMESTER BY A COMBINATION OF IMPORT CUTS AND NON-PAYMENT OF SOME DEBT OBLIGATIONS TO OFFICIAL CREDITORS. BASED ON SAMBWA'S INTENTION TO PAY \$85 MILLION TO IMPLEMENT THE LONDON AGREEMENT, WE EXPECT GOZ FIRST SEMESTER 1977 DEBT SERVICE PAYMENTS WILL BE SOMEWHAT OVER \$100 MILLION AND THAT PERHAPS \$100 MILLION IN FIRST SEMESTER OBLIGATIONS WILL GO UNMET.

8. IMPLICATIONS FOR PARIS CLUB STRATEGY - WE BELIEVE THAT ZAIRE'S BALANCE OF PAYMENTS SITUATION SUGGESTS A TWO TIER APPROACH TO PUBLIC DEBT RESCHEDULING AS OUTLINED IN REF B. RESCHEDULING OF FIRST SEMESTER 1977 ARREARAGES APPEARS SENSIBLE SINCE:
(A) THIS WOULD REGULARIZE OBLIGATIONS THAT MIGHT OTHERWISE BE DIFFICULT TO COLLECT,
(B) TAKE INTO ACCOUNT THE ECONOMIC EFFECTS OF THE WAR WHICH, BASED ON THE MOST RECENT MINERAL EXPORT STATISTICS, MAY HAVE BEEN MORE SERIOUS THAN WE THOUGHT,
(C) TAKE INTO ACCOUNT THE POLITICAL NEED TO TAKE A FORTHCOMING POSITION.
FOR THE SECOND SEMESTER, A REVERSION TO THE TERMS OF THE SECOND SEMESTER. CONFIDENTIAL

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SEMESTER OF 1976 WOULD APPEAR TO BE IN ORDER. ALTHOUGH PRESENT INDICATIONS SUGGEST THAT ZAIRE'S FINANCIAL POSITION COULD IMPROVE IN THE SECOND SEMESTER, THIS IMPROVEMENT IS BY NO MEANS A FOREGONE CONCLUSION. EVEN IF ALL WORKS TO THE BEST, ZAIRE WILL STILL HAVE OVER \$300 MILLION IN ACCUMULATED ARREARAGES IN THE SECOND SEMESTER. FINALLY, TWO TIER APPROACH WOULD PERMIT OVERSIGHT OF GOZ PERFORMANCE IN IMPLEMENTING IMF AGREEMENT/.

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